

EXHIBIT O

Modern Healthcare

Hospitals play into hands of vendors who try to break group contracts

By Esther Kuntz

Hospitals are playing into intravenous solution manufacturers' hands as the suppliers try to break up committed volume group contracts.

Committed volume contracts are becoming a major threat to vendors as more groups sign these agreements. But some hospitals are jeopardizing their potential long-run advantage in contract negotiations by joining groups to get prices down and then using these prices to get better offers from their current vendors. This is exactly what suppliers want, because once a group contract is broken, they can jack prices up again.

Baxter Travenol Laboratories Inc., Deerfield, IL, is "doing everything possible to destroy" Joint Purchasing Corp.'s committed volume contract with Abbott Laboratories, North Chicago, IL, said Barry Novich, vice president of the New York City group.

After the group awarded Abbott the contract, Baxter reminded one of the



JPC's vice president Barry Novich

Bids on JPC I.V. contract		
High volume plastic items	Abbott	Baxter Travenol (per case of 12)
5% dextrose in water (1000 ml)	\$ 9.62	\$11.22
5% dextrose in water injection (500 ml)	\$ 7.72	\$ 9.00
5% dextrose in water normal saline (1000 ml)	\$10.43	\$12.12
5% dextrose in water half normal saline (1000 ml)	\$10.43	\$12.12
Normal saline (1000 ml)	\$ 8.81	\$10.32

MODERN HEALTHCARE chart/July 1980

hospitals that their contract has two years to run, a hospital official said. "Don't you think it would be appropriate for us to have a chance to meet the competition?" the Baxter representative asked.

Baxter has approached other group members in the same way, Mr. Novich said. As far as he knows, none of the other suppliers have done so. McGaw Laboratories, Irvine, CA, a division of American Hospital Supply Corp., made counter offers to two hospitals, he said, but only after the hospitals requested them.

Baxter denies initiating negotiations with JPC members after Abbott got the contract. A spokesman said the hospitals invited counter offers and that it doesn't regard such hospitals as committed to a group contract.

When asked why Baxter didn't make its best offer to the group, a company official replied, "When you take bids [as the group did] you get what you're offered, and when you negotiate [as individual hospitals are] you get what you want." He also claimed that JPC didn't award the contract to the lowest bidder.

Abbott was by far the lowest bidder on most items (see chart), Mr. Novich declared. Baxter came in with lower prices on only a few items, including some basic administration sets.

Baxter has one JPC hospital backed

into a corner. Shortly after the group awarded the \$6-million-a-year contract to Abbott, Baxter representatives visited the hospital to review its standing with the company, Mr. Novich said. The hospital fears that Baxter, major creditor, will sue the institution for outstanding debt and put it out of business if it switches to Abbott.

There is "no substance to that concern," Baxter says. But the hospital just told JPC unofficially that it is dropping out of the contract.

Baxter is making it even easier for the hospital to continue doing business with it by offering to meet Abbott's

bid, which would save the hospital \$125,000 per year, according to Mr. Novich.

Despite such tactics, Baxter won't succeed in breaking the group agreement as it did with the Southeast Louisiana Hospital Service Corp., New Orleans, tried to negotiate an I.V. contract a year ago (MH June 1979, p. 12-13; Dec. 1979, p. 2). Mr. Novich believes.

"Those hospitals with integrity will stay with the group," he predicts. Every group member agreed to accept either Abbott or Baxter, depending on who offered the best deal. McGaw Laboratories and Cutter Laboratories, Berkeley, CA, also bid on the contract.

"If we can get two or three hospitals to sign the agreement, we will be able to convince the rest to join," Mr. Novich said. Many of the

hospitals and 11 nu
originally committed
have signed it, includ
als currently suppli
The rest want ass
will sign, because fo
the contract loses, t
on all discounts. I
participate, the grou
30% discount off cur
solutions and at leas
ration sets. Two ho

Management —

Georg hired t

By Vince DiPaolo
Managing Editor

INA Corp. last mon
Buncher president o
iates International I
the insurance holdi
Health Care Group
dent of INA Health
subsidiary of the
Group, Mr. Bunche
following a heavy
ville-based Affiliate
ment during the pas
Philadelphia-base
that former Affiliate
P. Van resigned to
ness. He will serve
Affiliates, the natio
operator of acute c
tals. Jack R. Ande
Group president an
man, said Mr. Va
because of disagr
them about Affi
philosophy. Also, M
"I am not an easy gu
Anderson declined fi
Mr. Van's departure.
ates will honor the ty
left on Mr. Van's fiv
Mr. Van declined
say "I'm proud of a
dramatic profit and
under my direction
Affiliates acknowledged
revenues have trip
became president ir
Former and curre
tives believe a clast
executives' manage
major reason for M
Van tried to imple
agement approach
odds with Mr. An

hospitals and 11 nursing homes that originally committed to the contract have signed it, including several hospitals currently supplied by Baxter.

The rest want assurance that more will sign, because for every 1,000 beds the contract loses, the group loses 1% on all discounts. If all 17,000 beds participate, the group will get about an 80% discount off current list prices for solutions and at least 50% off administration sets. Two hospitals outside the

group have asked to sign the contract, which will make up for beds that drop out. JPC is also opening the agreement to other hospitals that want to join.

This particular contract is a real threat to I.V. manufacturers, according to W. Robert Friedman Jr., Montgomery Securities, San Francisco. Some of the most prestigious medical centers in the country are members of the group. Mount Sinai Medical Center, Montefiore Hospital

and Lenox Hill Hospital evaluated products from all four suppliers and found many of them to be similar.

When major medical centers confirm that most I.V. products are generic, suppliers lose hospital loyalty to their products. They have only price to compete with. Nevertheless, hospitals have a tendency to stick with current suppliers to avoid retraining staffs to use different products, if they can get

Continued on page 16

Management

George Van quits Affiliates; Buncher hired to stem management turnover

By Vince DiPaolo
Managing Editor

INA Corp. last month named James E. Buncher president of its Hospital Affiliates International Inc., a subsidiary of the insurance holding company's INA Health Care Group. Formerly president of INA Healthplan Inc., another subsidiary of the INA Health Care Group, Mr. Buncher was brought in following a heavy turnover in Nashville-based Affiliates' senior management during the past 18 months.

Philadelphia-based INA announced that former Affiliates president George P. Van resigned to pursue other business. He will serve as a consultant to Affiliates, the nation's second largest operator of acute care general hospitals. Jack R. Anderson, INA Health Group president and Affiliates' chairman, said Mr. Van resigned partly because of disagreements between them about Affiliates' operating philosophy. Also, Mr. Anderson added "I am not an easy guy to work for." Mr. Anderson declined further comment on Mr. Van's departure. Sources say Affiliates will honor the two-and-a-half years left on Mr. Van's five-year contract.

Mr. Van declined comment except to say "I'm proud of Affiliates' record of dramatic profit and revenue increases under my direction." Sources inside Affiliates acknowledge that profits and revenues have tripled since Mr. Van became president in 1977.

Former and current Affiliates' executives believe a clash between the two executives' management styles was a major reason for Mr. Van leaving. Mr. Van tried to implement a team management approach and was often at odds with Mr. Anderson's individual

style of management. The differences in the two executives' management styles and business orientation often slowed the decision making process, leading many frustrated senior executives to seek work elsewhere.

Mr. Buncher, who has worked for

reason for the large recent turnover, Mr. Buncher believes, is that regional managers had been reduced to carrying information to and from corporate management. "There were too many committees too far removed from problems that were making decisions by



George P. Van (above) resigned after repeated clashes between his management style and that of Jack R. Anderson



Relations should be smoother between James E. Buncher (above) and Mr. Anderson who have closer management styles

Affiliates and INA for six years, is highly regarded by both current and former Affiliates executives. They believe that because his management style is closer to Mr. Anderson's, executive decision making will be smoother and faster and the company's direction and operating philosophy will be better articulated.

Mr. Buncher, 43, hopes to reduce turnover and improve job satisfaction by giving regional division managers greater decision making powers. One

majority rule," Mr. Buncher said.

Mr. Buncher worked for Abbott Labs and SCM Corp. prior to joining Affiliates. He says he will try to reconcile the conflicts between the freedom needed to maximize performance of entrepreneurial managers and needed management controls.

Some former executives cite top management's lack of decisiveness and the company's general lack of direction as their reasons for leaving. Said one,

Continued on page 18

endors
ts

at
Baxter Travenol
case of 12)

\$11.22

\$ 9.00

\$12.12

\$12.12

\$10.32

ERN HEALTHCARE chart/July 1980

ortly after the group
illion-a-year contract
representatives visit
to review its credit
company, Mr. Novich
fears that Baxter,
will sue the institution
debt and put it out
ches to Abbott.

stance to that con
s. But the hospital
officially that it
e contract.

ing it even easier for
continue doing business
ing to meet Abbott's

bid, which would
save the hospital
\$125,000 per year
according to Mr.
Novich.

Despite such
n't succeed in break
ement as it did when
isiana Hospital Ser
leans, tried to nego
act a year ago (MH
3; Dec. 1979, p. 20
s.

with integrity will
oup," he predicted
per agreed to accept
axter, depending on
best deal. McGaw
butter Laboratories
bid on the contract.

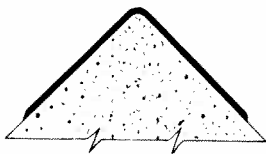
two or three key
the agreement, w
nvince the rest of
said. Many of the 2

Don't Just Cover Up...



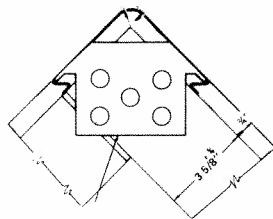
CORNER-UP

Taping, glues, mortar compounds and spackling mixtures just can't compare to the permanent installation of Wilkinson Stainless Steel Corner Guards. Whether you choose the Built-In Type Guard that fits in any new construction or the Cement-On Type Guard that fits over any existing construction, you know you haven't just hidden the problem, you've eliminated it.



CEMENT-ON TYPE CORNER GUARDS

- Easy Application
- Less Expensive
- Fire Proof
- No Visible Fasteners
- Permanent Installation



BUILT-IN TYPE CORNER GUARDS

- Adjustable Anchors
- No Visible Screw or Weld Marks
- Comparatively Inexpensive
- Prompt Delivery

For more information call or write the professionals.
Call the Sweets Buyline: (800) 255-6880.

WILKINSON CHUTES



1530 Commerce Dr., Stow, Ohio 44224
Ph. (216) 686-9922

Wilkinson Chutes (Canada) Ltd.
55 Judson St., Toronto M8Z 1A4
Ontario, Canada Ltd., Ph. (416) 252-7871

For more facts circle 108 on reply card

Purchasing

Continued from page 15
prices down far enough.

Baxter stands to lose its business with nine hospitals and three long-term care facilities if the JPC contract goes through. (Most of the other facilities currently use Abbott products. And the vendor will have to wait a long time for a chance to get that business back. The contract is for four-and-a-half years instead of the standard two or three.

I.V. vendors are playing for keeps these days because if committed volume contracts take hold there will be big winners and big losers. Instead of losing one hospital's business, a losing bidder may lose all its business in an area.

Vendors are testing hospital groups, said John Giampolo, director of the New Jersey Hospital Assn.'s purchasing program. Abbott, Baxter and McGaw each have a group purchasing contracts manager whose job is to evaluate purchasing groups for member loyalty, he affirmed. I.V. manufacturers bid accordingly.

Baxter didn't bid aggressively on a committed volume I.V. contract NJH awarded to Abbott two years ago. But because 43 hospitals stuck with the group, Baxter took them seriously and came back to win a committed volume amino acids contract this year. The 5 hospitals that committed to the new contract are getting discounts between 60% and 70% on the protein supplements.

If hospitals stick by their purchasing groups, they will achieve lower I.V. pricing for the long-term. But the temptation to take the best price now is strong. A hospital that has already saved \$3,000 by working through a group has to weigh whether going outside the group and saving another \$800 is worth higher prices in the long run, Mr. Giampolo said.

After all, if a group hadn't brought prices down in the first place, other suppliers wouldn't make a lower offer, said Gene P. Abel, vice-chairman, Hospital Purchasing Service of Philadelphia, PA. Prices can only go up again if hospitals renege on their commitment to a group.

The JPC contract is unusual in that individual hospitals can get an additional discount below the group price on key items of their choice. These products could represent the majority of a hospital's volume, Mr. Novich said.

The contract prohibits price increases for the first 18 months and limits price hikes for the remainder of the contract. ■